



A MESSAGE FROM
GOVERNOR STEVEN L. BESHEAR

February 21, 2008

Dear valued Kentucky state employee:

I write today to update you on my administration's efforts to strengthen and protect your retirement system.

Since shortly after taking office, my staff and I have been studying this very important issue along with the recommendations of the Blue Ribbon Commission appointed by my predecessor.

We spent months consulting with the experts, as well as with the excellent senior staff of the Kentucky Retirement Systems and the leaders of organizations that represent your interests in Frankfort and across the state.

I'm proud to tell you that we have developed a bold, consensus plan that would help protect the retirement savings of Kentucky's state employees, while continuing to allow the state to attract the best and brightest to state government. It will result in better oversight, address the funding challenges, and modernize the system for the next generation of public employees.

Let me first assure you: **We have proposed no changes to the core pension benefit packages of state employees and retirees who are currently in the system.** The commonwealth is legally and morally bound to the terms of its inviolable contract with current employees and retirees, and that pledge will be honored.

The only proposed changes to your benefits are as follows:

1. The Cost-of-Living Adjustment (COLA) would be changed to 1.5 percent, to provide equity among teachers and other public employees
2. The rules for returning retirees would be modernized. Under this new system, if you retire, and then wish to return to work, you would continue to receive your original pension benefits, but you would not qualify for a second pension benefit. On the other hand, no new employee contribution would be deducted from your paycheck.

We also address the factors that led to the unsustainable benefits and chronic underfunding that we now face, while at the same time, ensuring that we can attract the next

generation of quality state employees who must be adequately and fairly compensated for the vital work they will do.

Modernizing the systems for *future* hires—and I emphasize the word *future*, because these changes would *not* apply to current employees or retirees, but rather employees who have not yet been hired—would include incentives for them to work longer; lengthen vesting periods for retirement and health benefits, and close loopholes that provide benefits to a few, but significant costs to the state and other retirees. A modernized system for future employees will also differentiate between long-term, career state employees and short-term hires who intermittently enter and exit the system.

Furthermore, the Kentucky Public Pension Protection and Modernization Plan will help ensure the sound investment performance and long-term financial stability of your retirement system through improved accountability and education. This plan also calls for more transparency through proper public disclosure of investment practices and holdings of your retirement systems. We look forward to a time in the near future when you are able to go online and find out how your retirement funds are being invested. After all, it is your money, and you deserve to know how your financial future is being managed.

While the tight budget circumstances prevent us from fixing the funding problems overnight, we set a course for the state to catch up to its full funding mandate by 2020.

To view a PowerPoint presentation with details of the proposed Pension Reform legislation, visit the Finance and Administration's web site at <http://finance.ky.gov/>.

I thank you for your time and attention and enlist your support in this important pension protection measure. Kentucky is blessed to have such a dedicated and professional workforce, and I am honored to serve as your governor.

Steven L. Beshear